

**CITY OF MILPITAS
CITY COUNCIL UTILITY RATE SUBCOMMITTEE**

**Tuesday, August 8, 2006
UNAPPROVED MEETING NOTES
City Hall, 1st Floor Committee Room**

- I. Mayor Esteves called the meeting to order at 5:34 pm.
- II. Attendees: Mayor Esteves, Councilmember Robert Livengood, Steve Mattas, Charles Lawson, Emma Karlen, Mark Rogge, Marilyn Nickel and Elizabeth Racca-Johnson and members of the public.
- III. Announcements – There were no announcements.
- IV. Agenda was approved.
- V. Minutes from February 14, 2006, were approved.
- VI. Citizens Forum – no additional items not on the agenda were brought up by the Citizens present at this meeting.

IX. Water Rate Tier Review

Item IX Water Rate Tier Review was moved up since members of the public were in attendance for this item. Marilyn Nickel stated this is a special Subcommittee meeting as a result of a Milpitas resident's concern regarding the water rates. She added that these meetings normally take place in the Spring in coordination with the wholesale rates, CIP Projects budget and City budget, however, Council would like to listen to the resident's concern. Marilyn Nickel showed a power-point presentation (attached). Key points included:

- a. Purpose of Review
 - 1. Since Oct 17, 1995, residential water is charged on two tiers of: less than 20 units; and more than 20 units
 - 2. 1 unit = 1 hundred cubic feet = 748 gallons
 - 3. Average single family use is 23 units (a decline from the last few years from 26 units; City Council requested a mid-cycle review of the water rate structure
 - 4. City recently received information that Proposition 218 will require detailed rate review
 - 5. Purpose of two tiers; Council adopted a two-tier system on June 20, 1989, to provide a lifeline to the community and an incentive to conserve water
- b. Considerations
 - 1. Cost of water is \$2.01/unit
 - 2. First tier rate is discounted to \$1.40/unit; second tier is \$2.93/unit; Councilmember Livengood asked a hypothetical question about what would happen if the second tier was removed. Staff indicated that if the second tier is

removed, rates for all the users (residents, seniors, 100% users) would increase (to \$2.01/unit)

3. The City Water Fund is a non-profit enterprise that must purchase water, pay all operating costs, and replace infrastructure.
 4. The rate structure must always provide revenues to pay all costs; Mayor Esteves asked if revenues have restricted sources. Marilyn stated no and Steve Mattas clarified that the source of revenues is commonly from utility rate-payers into Enterprise Funds, however, General Funds may be legally used, but believes this is not a common practice. Councilmember Livengood said he researched this, and this is and has been the case since 1954.
- c. Comparison to Other Cities' First Tiers (referred to chart provided)
1. Fremont, Union City, Hayward, San Jose Water Company, Santa Clara – no tiers
 2. Mountain View – 6 units, Santa Cruz – 8 units, Sunnyvale – 12 units, Palo Alto & San Jose Municipal – 14 units, Milpitas – 20 units
- d. Consumption Patterns for 2005-06 (referred to chart provided)
1. First bar graph of chart shows 73% of consumption falls into Tier 1 @ \$1.40/unit, 27% of consumption falls into Tier 2 @ \$2.93/unit. Based on the '05-'06 consumption pattern, a second tier rate change is necessary if the first tier is kept at 20 units and at \$1.40/unit. All rates must rise and lifeline customers are impacted if the second tier is removed. Otherwise, the Water Fund would lose approximately \$1.2 million dollars per year. Marilyn further stated that in the future, as development increases in higher density without outside irrigation, all the new growth will land in the first tier and we will likely see a higher percentage.
 2. Second bar graph of the chart, with the first tier moved up to 50 units, shows 96% of consumption falls into Tier 1 @ \$1.40/unit and the remaining 4% is in Tier 2 @ \$16.36/unit. Almost all the usage is in one tier. In addition, if Tier 1 is increased to 50 units, City would have to raise the rate of Tier 1 for all users to \$2.01/unit to keep from Water Fund losing money (40% increase for Tier 1 users). Smaller households will bear the largest increase if Tier 2 is eliminated. Further research is needed to determine the revenue lost if Tier 1 is changed to either 30 or 40 units (hcf).
- e. Revenue Impacts
1. If current rates are maintained and a 50 unit first tier is implemented, the Water Fund would lose \$1.2 million or more; therefore all rates must rise and lifeline customers are impacted.
 2. If tier volumes change, we will need to implement a rate revision.
 3. Mark Rogge stated that the 2-tier system also equalizes the fixed meter cost structure between larger households and smaller households. A single household using twice as much water as two average households only pays one meter fee.
 4. Councilmember Livengood asked about the rate structure of mobile homes and Mark responded that they usually have one water meter and costs are distributed among the people at the homes. Mark also confirmed that they would also face the increase in Tier 1, if Tier 2 is eliminated.

- f. Historical First Tier Usage
1. Past increases in rates were discussed. Approved meeting minutes from the past were referenced. Increases were attributed to increases passed on to City by the wholesalers.
- g. Recommendations
1. Maintain current tier structure.
 2. Increase outreach for next rate hearing in the Spring and consider the water rate policy in conjunction with the recent Proposition 218 requirements
 3. Mark summarized part of Marilyn's analysis by stating the question raised: can we go ahead and increase the first tier and if we could, what impact would that have? As you raise the first tier, you end up not having enough money unless you raise the rates of both first and second tiers, and this did not sound like a good way of going. He added that the amount of people benefiting by the first tier is 73% and yet the second tier is not that onerous, whereas if we raise the first tier to 50 units and maintain the first tier at \$1.40, it makes the second tier too high, at \$16.36 per unit. Part of the requirements of the water rate schedule is that it has to have a relationship to its usage. Rates need to be set based on the value the customer is getting. The purpose of the tiered rate structure is to promote water conservation and it also acts like a lifeline so that people with fixed income can take advantage of the lower lifeline rate.
- h. Mayor Esteves asked for a clarification of information from the historical graph. Both Councilmember Livengood and Marilyn Nickel clarified that 50% of the household pay some level of Tier 2, that some of the 73% of first tier is paying a portion of the second tier. Mayor Esteves further asked for clarification of how the 50 unit (hcf) cut off was determined. Emma stated that it was proposed by customers.
- i. The following information was also provided in response to other questions:
1. The total revenue generated from the estimated 6.7% increase would be about \$700,000.00 this year for the City. The increase is based on the wholesale rates passed on to the City.
- j. Staff will research the following Action items:

1	How much revenue is lost if the first tier is changed to 30 hcf and the rates are not changed?
2	How much revenue is lost if the first tier is changed to 40 hcf and the rates are not changed?
3	How many households pay less if the second tier was removed and all would be at one tier?
4	What percent of households/customers reach the level that Mr. Umar Hayat's household pays and how often?
5	How do other cities handle "hardship"?
6	Look up Dorothea Randolph water bill and what she is paying.
7	What is the "sweet spot" where a single tier will cost more than the existing

	structure?
8	Can we establish a system to manage hardship?
9	Look up minutes from Council meeting when the April 2003 Financial Utility Master Plan (FUMP) was approved - what was the vote?
10	Provide report on late fee, how many customers are paying, what is the revenue?
11	Take bac-ti water samples at 2 homes

VII. **Proposed Wastewater Developer Impact Fees**

Marilyn stated this item is for information only and the request for evaluating it was initiated by Darryl Wong, who is now retired. She explained that City collects connection fees to recover cost for infrastructure and also collects treatment plant fees to recover capital costs. She further stated that these fees were last evaluated in April 2003, as part of the Financial Master plan. However, it has been determined that the basis of these fees are now changing due to the City moving forward with Transit Area Specific plans, therefore, a re-evaluation of these fees is necessary. She is proposing that request for proposals (RFP) be sent out to Consultants for this service. Mayor Esteves asked how much was spent on the first evaluation. Marilyn stated that it was \$100,000.00, which included the Financial Master Plan all encompassing study. Marilyn stated that there is currently \$20,000.00 budgeted for this service.

VIII. **Utility Account Deposit Discussion**

Emma Karlen provided a background of the utility bills collections process and past recommendations that has been used to collect payments between existing customers and new customers. She explained that a customer asked whether the deposits made are refundable or is there interest made on the deposit. She further stated that this item was brought to the Financial Committee and they requested that staff come up with a policy for refund of deposits to customers after a period of time or calculation of interest on it. It was recommended that staff look into the possibility of keeping deposits for a period of 1 to 2 years and determine the credit standing of the individual customer after that period. Councilmember Livengood stated his concern regarding deposits kept for long periods of time, especially those who already established good credits. He further stated that those customers should be paid interest. At the end of the discussion, Councilmember Livengood agreed that staff should look at keeping deposits over a period of one year then releasing it after that period, under good credit. He also requested that staff look into the impacts of late fees on City revenues and how many customers are being charged these fees.

X. Other Business – None

XI. Adjournment – A follow-up meeting was scheduled for Tuesday, September 26, 2006 at 7:00 pm. The meeting was adjourned at 7:00 pm.